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C O N F I D E N T I A L SECTION 01 OF 02 MONROVIA 000073

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TAGS: ECON EMIN PGOV LI
SUBJECT: LIBERIA: CHINESE FIRM WINS BID TO DEVELOP BONG
IRON ORE MINE

REF: 08 MONROVIA 744

Classified By: Ambassador Linda Thomas-Greenfield for reasons 1.4 (b) a
nd (d)

¶1. (C) SUMMARY: The China Union Investment Company has won the bid to redevelop Liberia's Bong iron ore mining range. The $2.6 billion concession agreement is the most lucrative investment contract signed by the Sirleaf government and is expected to create over 10,000 direct jobs and rehabilitate rail, port and power infrastructure in an area ravaged by the war and neglect. Delays in the bid evaluation process left the GOL in a weak bargaining position and the intervening financial crisis forced the GOL to accept terms that forego considerable future revenues. The tender award was generally fair and transparent, but the GOL's final rush to conclude the deal is a result of new global market realities and the administration's desperation to show results soon. END SUMMARY.

¶2. (SBU) The Bong Mines concession covers a thirty square mile area formerly mined by the German-Italian Bong Mining Company from 1965-1990. The range includes an estimated 290m tons of ore reserves at a relatively weak 35-45% iron content. The concession area is 50 miles north of Monrovia and is joined to the coast by a rail line that is still (barely) intact. During a visit to the area January 10, the Ambassador noted the complete destruction of the previous processing plant and associated infrastructure. Revitalizing the mining project will require billions of dollars in investment and will take several years.

¶3. (C) China Union's proposal won both technical and financial bidding rounds over close contender Vedanta Resources (India), and more distant competitors Beleh Resources (Liberia) and BSG Resources (Israel). According to the bid criteria set by the special Inter-Ministerial Concession Commission (IMCC) evaluation team for the Bong concession, bidders were judged 50% on their technical proposals, and 50% on their financial terms, of which an initial "bullet payment" had an unusually high weighting. China Union pledged to invest $2.6 billion over 25 years, including construction of a million-ton refining factory, a 130MW hydroelectric power plant, and rehabilitation of the existing rail line and port infrastructure. As with other concession agreements, the contract also obligates China Union to provide residential housing and social services within its concession area. For its up-front bullet payment, China Union pledged $20 million at signing and an additional $20 million after 120 days, though they later renegotiated an extra 90 days for each payment. (Note: a contact at the Chinese Embassy in Monrovia told PolCouns that China Union was a special-purpose private holding company that would rely on private banks rather than state funds for finance. End

note).

¶4. (C) According to reports from a USG-funded consultant to the Ministry of Lands, Mines and Energy (MLME) who advised the GOL during the negotiations, the bid evaluation process was fair and transparent and much improved over the debacle of the Western Cluster iron ore concession in 2008 when a lack of due diligence forced the GOL to cancel the award at the last moment (reftel). For the Bong bid, the IMCC adopted more rational bid criteria, outsourced due diligence to an international accounting firm, and followed a very strict checklist of new regulations derived from the Public Procurement and Concessions Act.

¶5. (SBU) Unfortunately, the improved procedures and performance followed many months of delays and false starts. Expressions of Interest for the Bong Mine were originally received in August 2007 but because the MLME and IMCC were focused on the Western Cluster concession tender, evaluation of the bids did not begin until May 2008 and did not conclude until November 2008, by which time the crash in steel prices had significantly altered the financial calculus for iron ore bidders. Meanwhile, three years into her tenure, the President has become increasingly anxious to conclude concession agreements that have the potential to create jobs and infrastructure.

¶6. (C) Those factors weakened the GOL negotiating position. Under pressure from the President to expedite deals (a position she has stated publicly), GOL negotiators ceded to China Union's request for a significant reduction in fiscal

terms. Reports from inside the IMCC in January describe rushed negotiations between the National Investment Commission and Ministry of Finance (backed by the USG advisor and pro-bono U.S. counsel) trying to hold onto long term rents on one side and China Union (backed by Minister of Lands, Mines and Energy Eugene Shannon) on the other side arguing for financial concessions in light of the global economic crisis. Ultimately, China Union prevailed and secured terms the USG advisor described as "considerably more favorable" than the original bid.

¶7. (C) In addition to improved financial terms, Minister Shannon told the Ambassador January 7 that China Union sought to increase the size of its concession after the award in order to improve its return on investment. The USG consultant told Econoff that the new concession reportedly grants China Union a portion of the Wologisi iron ore deposit as well, in exchange for a pledge from China Union to help complete construction of a coastal road from Sierra Leone to Cote d'Ivoire. However, contacts at the Chinese Embassy in Monrovia were unable to confirm this and said that China Union had not shared with them any details regarding the concession agreement signed with the GOL, and in fact had not even invited the Chinese Ambassador to the January 19 signing ceremony.

COMMENT

¶8. (C) The Bong Mines concession agreement with China Union is a huge economic milestone for Liberia: the largest investment in the country's history and a major contribution to the economic revitalization of the country. The deal also reflects several noteworthy realities of the current investment and political climate in Liberia:

-- Governance is improving. The process for evaluating bids was more transparent, fair and responsible than in the previous Western Cluster tender. With each successive concession, some GOL ministries and agencies appear to be learning from mistakes and improving with experience. This trend should be reassuring for large, reputable investors.

-- Time is more important than money. The heavy weighting of the initial bullet payment, the preference for technical proposals with a fast start-up timeline, and bundling concessions with unrelated infrastructure projects are all a reflection of the high priority the GOL places on funding its near-term Poverty Reduction Strategy (PRS) and showing clear results during the President's term in office. Such prioritization favors firms with an appetite for risk, deep pockets, and ability to ramp-up quickly, at the expense, potentially, of better long-term offers from more conservative bidders. The President, while understanding the value of a competitive bidding process for major projects may have decided that the benefits of speed, experience, and in-country equipment outweighed the disadvantages of a linked deal.

-- The financial crisis will have a lasting impact on Liberia. Delays (and missteps) in the award of the Western Cluster and Bong Range have cost Liberia dearly. In addition to the Nimba Range (awarded to ArcelorMittal in 2007), these three known deposits represent the most lucrative economic engines for Liberia's long-term economic growth. The GOL's failure to conclude any award during the administration's first three years has forced the GOL to accept less favorable terms. A focus on short-term political and economic survival is understandable under the circumstances, but the consequences over the life of the concessions will be expensive.

THOMAS-GREENFIELD